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FOREIGN DIRECT INVESTMENT AND MANUFACTURING GROWTH NEXUS:
EVIDENCE FROM ASEAN-4 COUNTRIES

A thesis submitted to the Graduate School in partial
fulfillment of the requirements for the degree
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by
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ABSTRACT

Kajian ini mencuba untuk memberikan penerangan yang lebih jelas mengenai kaitan di antara pertumbuhan sektor pembuatan atau perkilangan dengan pelaburan asing untuk empat negara ASEAN iaitu Malaysia, Thailand, Indonesia dan Filipina. Kajian ini berdasarkan data sekunder yang didapati daripada laporan rasmi dari tahun 1982 hingga 1999 yang dikeluarkan oleh Bank Pembangunan Asia.

Tujuan kajian ini adalah untuk mengenal pasti dan menganggarkan model struktur untuk pertumbuhan pembuatan dan pelaburan asing. Model struktur ini terdiri daripada persamaan pertama yang menerangkan pertumbuhan sektor pembuatan dan persamaan kedua yang menerangkan pelaburan asing. Model struktur dianggar dengan kaedah "two staged least squares".

Dapatan kajian ini agak berbeza daripada yang diperolehi oleh kajian yang terdahulu. Melainkan negara Filipina dan Malaysia, keputusan kajian untuk Thailand dan Indonesia tidak menunjukkan bahawa ada perhubungan yang ketara di antara pelaburan asing dan pertumbuhan dalam sektor pembuatan. Model bagi Indonesia telah gagal untuk memberi penjelasan mengenai hubungan di antara semua pembolehubah yang dikaji.

ABSTRACT

This study is an attempt to provide some further insight on the relationship between manufacturing sector growth and foreign direct investment in four ASEAN countries viz. Malaysia, Thailand, Indonesia and the Philippines. This study is based on the secondary data obtained from Asian Development Bank official publications from the year 1982 to 1999.

The purpose of the study is to specify and estimate a structural model for manufacturing growth and foreign direct investment. The structural model consists of two equations, one for manufacturing sector growth and the other foreign direct investment. Two stage least squares method is used to estimate the model.

The results of this study are not consistent with most of the previous studies. Except for the Philippines and Malaysia, the results for Thailand and Indonesia do not indicate any significant relationship between foreign direct investment and manufacturing sector growth. For Indonesia, the model failed to describe the nature of the relationship between all the tested variables.

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Chapter One

1.1 INTRODUCTION

Foreign direct investment inflows and international trade in Asian countries increased significantly over the past two decades. Research consistently finds a positive relationship between foreign direct investment and economic growth (John Asatu-Adjaye, 2000). Rana P.B. (1988) had shown that it is apparent that the strong growth of most Asian countries has been driven by growth in foreign direct investment by multinationals companies. The multinationals companies create and expand foreign subsidiaries that engage in manufacturing sector and international trade flows in and out of the country tend to increase. Increased in international trade means an increase in export, this will eventually translate into economic growth for the host country.

Previous study of foreign direct investment had covers many different issues for example, Barrel R. and Pan N. (1997) studies foreign direct investment and it relationship with technological change and economic growth and Driffield N. (2001) focus the impact of foreign direct investment on productivity.

Other studies on foreign direct investment includes, Barry F. and Bradley J. (1997) on the role of Japanese foreign investment in South Korea manufacturing sector; Schive (1990) on the impacts of foreign direct investment on technology transfer and linkage effects in Taiwan, finding that foreign firms use more labor-intensive technologies compared to domestic firms, which leads to more jobs being created; Kueh (1992) on the

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